

SPECIAL NOTICE

May 17, 2005

For further information contact:
Telephone Information Center
1-800-647-7706 or (360) 705-6676

Alternate Formats (360) 705-6715
Teletype 1-800-451-7985

New Washington Estate Tax

The Legislature enacted and the Governor signed into law a new Washington estate tax effective May 17, 2005. Estates of decedents who die on or after the effective date are subject to the tax. This is a stand-alone estate tax that incorporates some provisions of the Internal Revenue Code as of January 1, 2005. However, the Washington estate tax is not affected by the scheduled termination of the federal estate tax in 2010.

Who Must File a Washington Return?

For decedents dying on or after May 17, 2005, a Washington Estate Tax Return must be filed by the personal representative if the decedent owned property located in the state of Washington and the gross estate exceeds the thresholds listed below.

What are the filing thresholds?

(Time) Period	Filing Threshold
May 17 - December 31, 2005	\$1,500,000
2006 and thereafter	\$2,000,000

When must the estate tax return be filed?

The estate tax return must be filed within nine months of the decedent's death. For example, if a decedent passes away on May 17, 2005 the estate tax return or an extension request must be filed by February 17, 2006.

How is the tax calculated?

The tax is calculated using the Washington taxable estate. The "Washington taxable estate" means the federal taxable estate determined without regard to the deduction for state estate, inheritance, legacy, or succession taxes:

- ◆ Less \$1.5 million for decedents dying May 17, 2005 to December 31, 2005, and \$2 million for decedents dying on or after January 1, 2006; and
- ◆ Less the amount of real or tangible personal property used for farming purposes that qualifies for the farm deduction.

The table below is then applied to the Washington taxable estate:

If Washington Taxable		The Amount of Tax Equals		Of Washington Taxable Estate Value Greater Than
Estate is at Least	But Less Than	Initial Tax Amount	Plus Tax Rate %	
\$0	\$1,000,000	\$0	10.00%	\$0
\$1,000,000	\$2,000,000	\$100,000	14.00%	\$1,000,000
\$2,000,000	\$3,000,000	\$240,000	15.00%	\$2,000,000
\$3,000,000	\$4,000,000	\$390,000	16.00%	\$3,000,000
\$4,000,000	\$6,000,000	\$550,000	17.00%	\$4,000,000
\$6,000,000	\$7,000,000	\$890,000	18.00%	\$6,000,000
\$7,000,000	\$9,000,000	\$1,070,000	18.50%	\$7,000,000
Above \$9,000,000		\$1,440,000	19.00%	Above \$9,000,000

What are the other provisions?

Farm Deduction - A deduction is available for farmland and any tangible personal property used primarily for farming purposes. Certain criteria must be met in order to qualify for the farm deduction.

Out of State Assets - Apportionment is allowed for estate property located outside of Washington. The amount of tax is the amount determined in the above table multiplied by a fraction. The numerator of the fraction is the value of the property located in Washington. The denominator of the fraction is the value of the decedent's gross estate. Property qualifying for a farm deduction is excluded from the numerator and denominator of the fraction.

Elections and Valuations - Elections or valuations made on the Washington return must be consistent with the elections or valuations made on the federal estate tax return.

Qualified Terminable Interest Property (QTIP) Election - A personal representative may choose to make a different QTIP election amount on the Washington return than on the federal estate tax return and a QTIP election may be made on the Washington return when no federal return is required.

Statute of Limitations - Refunds and assessments must be made within four years plus the calendar year in which the tax was paid or the return filed.

Generation Skipping Transfer Tax - Washington state no longer collects the generation skipping transfer tax on the estates of decedents whose date of death is May 17, 2005 or later.

Note: All estates are required to file a Washington return if a federal return is required (even though no tax is due).

Estate Tax Examples

1. John dies in 2006 with an estate valued at \$3 million. John left one million dollars to his spouse Jane using the unlimited marital deduction. There is no Washington estate tax due on John's estate.

Gross estate	\$3,000,000
Less unlimited marital deduction	- \$1,000,000
Less \$2,000,000 statutory exemption	- \$2,000,000
Washington Taxable Estate	\$0

Although no Washington estate tax is due, the estate is required to file a Washington estate tax return

2. A widow dies in 2006 leaving a gross estate of \$3,100,000. The estate had \$100,000 in expenses deductible for federal estate tax purposes. Examples of allowable expenses include funeral expenses, indebtedness, property taxes, and charitable transfers. The decedent also owned a home in Arizona valued at \$300,000.

Gross estate	\$3,100,000
Less allowable expenses deduction	- \$100,000
Less \$2,000,000 statutory exemption	- \$2,000,000
Washington Taxable Estate	\$1,000,000

Based on the tax table, the estate tax equals \$100,000 (\$1,000,000 x 10% Washington estate tax rate). Because the decedent owned an out-of-state asset the tax due to Washington is prorated by multiplying the amount of tax owed by a fraction. The numerator of the fraction is the value of the property located in Washington divided by the denominator that equals the value of the decedent's gross estate.

$$\$2,800,000 (\$3,100,000 - \$300,000) \times \$100,000 / \$3,100,000 = \$90,323$$

The estate does not have to pay estate tax to the state of Arizona in order to reduce the tax owed to Washington. The estate tax due to Washington is \$90,323.

3. John dies in 2006 leaving a gross estate valued at \$4 million. The estate assets include John's one-half community property interest in timberlands. John's one-half interest in the timberlands is valued at \$2 million dollars. John's spouse Jane owns the other one-half community property interest in the timberland. The timberlands qualify for the Washington estate tax deduction for farm property. John leaves his interest in the timberlands to his son, a qualified heir.

Gross estate	\$4,000,000
Less \$2,000,000 farm deduction	-\$2,000,000
Less \$2,000,000 statutory exemption	\$2,000,000
Washington Taxable Estate	\$0

Although no Washington estate tax is due, the estate is required to file a Washington estate tax return.

4. A widow dies in 2006 leaving a gross estate valued at \$3.5 million. A majority of the value of the gross estate was comprised of a small construction business. The business assets (real property and heavy equipment) were heavily mortgaged. The estate had \$1,500,000 in mortgage debt and other allowable expenses deductible for federal estate tax purposes.

Gross estate	\$3,500,000
Less debt and allowable expenses deduction	- \$1,500,000
Less \$2,000,000 statutory exemption	-\$2,000,000
Washington Taxable Estate	\$0

Although no Washington estate tax is due, the estate is required to file a Washington estate tax return.

5. A widow dies in 2005 leaving a gross estate valued at \$3 million. The estate had expenses deductible for federal estate tax purposes equaling \$100,000. The estate assets include a farm and farm equipment valued at \$2 million that qualify for the Washington estate tax farm deduction. The widow leaves the farm to her daughter, a qualified heir.

Gross estate	\$3,000,000
Less allowable expenses deduction	- \$100,000
Less \$1,500,000 statutory exemption	-\$1,500,000
Less \$2,000,000 farm deduction	-\$2,000,000
Washington Taxable Estate	\$0

Although no Washington estate tax is due, the estate is required to file a Washington estate tax return.

What if I have questions regarding the new estate tax?

Telephone: Please call (360) 570-3265 and press option number 2 to be connected with the next available estate tax specialist.

E-mail: You can send your questions via e-mail to communications@dor.wa.gov.

Web site: Additional information on the new estate tax is available on the Department's web site at http://dor.wa.gov/content/taxes/other/tax_estate.aspx.

E-mail list service: You can subscribe to **Estate Tax Notifications** at <https://dor.wa.gov/Content/Contactus/email/listServ.aspx?listtype=estate>. By subscribing to the list you will receive information updates from the Department. You are free to unsubscribe at any time.

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